



Securing A Better Tomorrow

Kentucky Public Employees' Deferred Compensation Authority

**Summary of Kentucky's Program
Including
Current Utilization and Performance
within the Government Defined
Contribution Universe**

**As Prepared for
The Defined Contribution Plan Subcommittee**

Date: August 2008

Preface

As requested by Personnel Cabinet Secretary Nikki R. Jackson, this report is intended to present information to the Defined Contribution Plan Subcommittee (Committee) on the current utilization and performance of the Kentucky Public Employees' Deferred Compensation Authority (KDC) program in the defined contribution universe. The comparisons drawn are primarily with the other 49 state defined contribution programs. This information was gleaned in part from the *2006 Biennial State and Local Government Defined Contribution Plan Survey*, conducted by the National Association of Government Defined Contribution Administrators, Inc. (NAGDCA), a survey of state plans conducted by KDC, the report *Promises with a Price – Public Sector Retirement Benefits*, released by the PEW Charitable Trusts and *Understanding Retirement Plan Fees and Expenses*, published by the U.S. Department of Labor.

It is **not** the intent of this report to present a position regarding whether a defined contribution plan should be an alternative to the Commonwealth's current primary defined benefit plans for new employees. Rather, it is intended to: 1) explain the KDC program; 2) compare KDC to other state programs and 3) to be factual.

Introduction

***Evolution of KDC**

***Board of Trustees**

Evolution of KDC

The Kentucky Public Employees' Deferred Compensation System (System) was created by State Statute (KRS 18A.230-18A.275) in 1974 when the 457 Plan was established. Deferrals into the 457 Plan began in 1975. The General Assembly subsequently established the 401(k) Plan in 1985 and deferrals commenced in 1986.

In 1994, pursuant to Executive Order No. 94-1235 the System was renamed the Kentucky Public Employees' Deferred Compensation Authority and elevated to authority status. The Order also attached KDC to the Personnel Cabinet where it continues to reside for administrative purposes **only**. In addition, the Order modified the composition of the Board of Trustees (Board) and empowered it to hire an executive director to work at the Board's pleasure.

Board of Trustees

The Board is now composed of 7 members and consists of the following:

Secretary of Finance and Administration Cabinet, Ex Officio

Secretary of Personnel Cabinet, Ex Officio

State Controller, Ex Officio

Four at large members appointed by the Governor

- One must have 5 years investment or banking experience
- One must represent non-state employers
- Serve 4 year terms

The current Board members are:

Ex Officio Members

Nikki R. Jackson, Personnel Cabinet Secretary

Jonathan S. Miller, Finance and Administration Cabinet Secretary

Edgar C. Ross, Board Chairman, State Controller

Governor Appointees

Monika M. Hubbard, Board Vice-Chairman

Southeast Sales Consultant – Epic Advisors

Douglas C. Adams

Superintendent – Clay County Board of Education

William E. Feltner

Senior Vice President – First National Bank of Lexington

W. Richard Jones

Senior Vice President – PNC Advisors

Meetings:

Quarterly

Third Wednesday of February, May, August and November

Objectives:

Establish and maintain qualified deferred compensation plans for state and local governments, public school and university employees as provided for in the Internal Revenue Code (IRC).

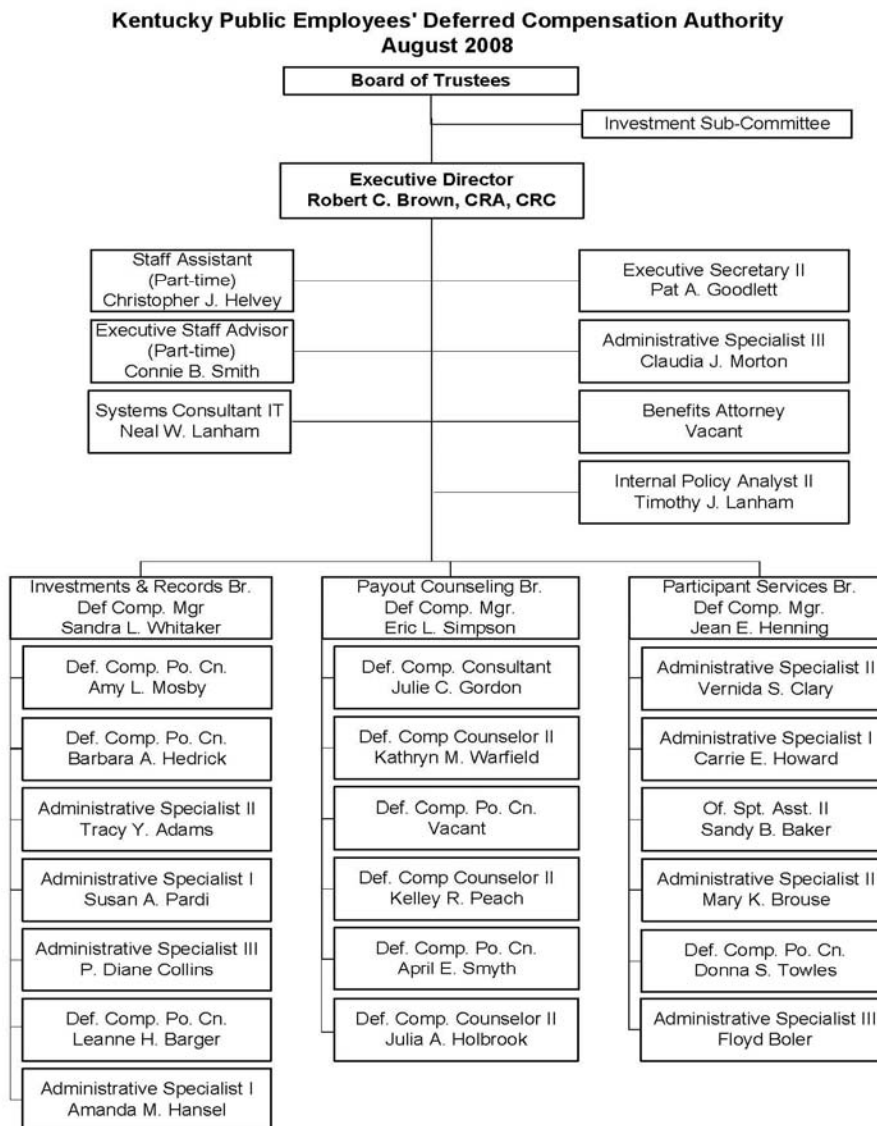
Administration

- *Staffing & Structure
- *Funding
- *Revenue
- *Expenditures
- *Plan Asset Size
- *Participating Employers
- *Employee Participation
- *Plans and Optional Features
- *Services and Benefits Provided by Authority Staff
- *Investment Options
- *Participant Education/Communications
- *Website/Internet Services

Staffing & Structure

KDC staff currently consists of 26 full-time and 2 part-time employees. The structure of the Authority includes 3 branches and the Executive Director's office. The 3 branches are as follows:

- Investments and Records
- Payout Counseling
- Participant Services



26 Full-time Employees
2 Part-time Employees
2 Vacancies

Funding

When KDC was created the General Assembly did not authorize any General Fund dollars to pay for the administration of the programs. Therefore, KDC is self-supporting by statute and must generate its own revenue for operating purposes.

KDC has maintained a strong financial position since its creation. There are no funding issues within KDC. This means KDC does not have any unfunded liabilities. In fact, the plans administered by KDC do not lend themselves to the potential for the accrual of unfunded liabilities. This is a contributing factor as to why defined contribution retirement plans have gained in popularity.

Revenue

KDC generates its revenue through 2 primary sources which are:

- 1) Asset fees and
- 2) Expense reimbursements (revenue sharing)

Asset fees are the annual record keeping and administrative fees assessed to each participant's account(s). Expense reimbursements are fees paid by some mutual fund companies to KDC to help offset administrative expenses such as record keeping and marketing. Not all mutual fund companies grant KDC expense reimbursements. For instance, Vanguard does not pay any amount to KDC to help defray the cost of plan administration.

It should be noted the KDC Board is very conscious of participant fees. The Board authorized participant fee reductions in 8 of the past 12 fiscal years. The most recent action was taken in November 2007 when the Board moved to lower cost institutional share classes where available; thereby eliminating higher priced share classes which paid KDC 12b-1 fees. This action reduced participant cost by \$600,000 per year. With this most recent Board action, fee reductions now equate to approximately \$4.0 million in participant savings on a recurring annual basis.

The approximate annual cost to participants in the KDC program is as follows:

average asset fee	0.23%
average fund expense ratio	<u>0.47%</u>
total average participant fee	0.70%

KDC's survey of asset fees assessed by other states revealed these fees range from 0.00% to 0.25%. The average asset fee from the survey was 0.18%. The average fund expense ratio for those states reporting ranged from 0.05% to 1.00%. The average fund expense ratio was 0.51%. The total average participant fee for states responding to the KDC survey is 0.69%. Thus, KDC's annual participant cost is comparable to those states who participated in the survey.

For the fiscal year ended June 30, 2008, KDC generated revenue of approximately \$7.6 million.

Expenditures

For the fiscal year ended June 30, 2008, KDC incurred expenditures of approximately \$6.2 million.

KDC's average annual administrative cost on a per capita basis is approximately \$84. KDC's cost of administration is relatively low, given the number of program features administered and compares favorably with the other state deferred compensation plans on both a national and neighboring states basis (although many of these state programs administer only 1 plan for 1 employer). It is typically more costly to administer multiple plans and optional features as KDC does. There is considerable variation in the administration cost for all states as illustrated by the results of KDC staff's survey. This survey revealed annual administration cost varied from \$4 to \$120 per participant. The average annual per participant administrative fee being incurred by those state plans participating in the KDC survey was \$55.

When revenue and expenditures for fiscal year 2008 are compared, KDC's financial position improved once again. At the end of fiscal year 2008, revenue 'exceeded' expenditures by approximately \$1.4 million. This additional revenue will be used to implement the new professional investment advice program for participants as well as any other new benefit initiatives the Board elects to pursue.

Another key point when making program cost comparisons is the fact, very few other state programs, if any, offer participants the level of 'personal' service available to KDC's participants. These services are not free to provide, yet KDC's administrative costs remain highly competitive with other deferred compensation programs providing fewer services to plan participants. This distinguishes the KDC program from the majority of state programs on both a national and neighboring states basis. We believe this affords KDC participants tremendous advantages in the receipt of administrative services. These personal services include but are not limited to payout counseling, catch-up assistance, loan processing, etc.

Plan Asset Size

As of June 30, 2008 KDC's assets totaled approximately \$1.6 billion, representing a slight increase from June 30, 2007.

Pension & Investments Magazine – January 21, 2008 issue listed the top 1,000 pension fund/sponsors. This list included both public and private sector defined benefit and defined contribution plans (of which there are thousands). KDC made the list and ranked 631st. Both KRS and KTRS also made the list being ranked 100th and 87th, respectively.

In the 2006 NAGDCA survey KDC ranked 19th in total plan assets (\$1.2 billion) of the 35 reporting states. The largest program was the state of New York (\$8.0 billion) followed by California (\$6.3 billion), Ohio (\$6.1 billion) and Michigan (\$4.2 billion). NAGDCA divides members by asset size and KDC is in the highest tier which is for plans with assets of \$1 billion and above. There were 17 state plans in the 'large' plans tier, including KDC.

Participating Employers

Historically, public employers of the Commonwealth have utilized the KDC program as a 'supplement' to their primary defined benefit plan administered by the Kentucky Retirement Systems (KRS), Kentucky Teachers' Retirement System (KTRS) or the Judicial Form Retirement System. We were, for a number of years, known by many employers as the 'other' retirement program.

Approximately 850 public employers from across the Commonwealth now participate in the KDC program. Employers participate in the KDC program in one of two ways: 1) State statute (automatic) or 2) Joinder Agreement (elective). Kentucky state government, all public school district and all public universities are participating employers by state statute. Local governments and other political subdivisions may elect to participate by executing a Joinder Agreement.

KDC differs from the vast majority of state deferred compensation programs in that other states do not typically offer local political subdivisions, schools and universities the opportunity to participate in their plans. Other states may offer one of these jurisdictions the opportunity to participate but not both. Enabling other government employers to participate increases dramatically the administrative processes required to maintain these retirement plans. However, if Kentucky did not offer the KDC program to other governmental entities, the smaller ones may have found the cost to establish a deferred compensation program to be prohibitive. Having the ability to participate in the KDC program enables those government entities the opportunity to significantly enhance their total benefits package for their employees. Further, the cost to the employer is only the relatively small amount of time it takes to process the payroll withholdings. KDC does the remainder of the work!

Employers of all sizes (from just a few employees to thousands) participate equally in the KDC program. Employers who participate by state statute must offer both the 457 and 401(k) Plans. Employers required to complete a Joinder Agreement may offer either or both plans. The vast majority of elective employers do offer both plans.

The only large local government employer who does not currently participate in the KDC program is Louisville Metro Government. KDC marketing staff will continue to pursue adding them to the program. Statewide over 1,000 employers are currently eligible to participate in the KDC program.

Bottom line, there is wide acceptance and utilization of the KDC program by eligible public employers statewide (over 80%). However, a number of employers remain uncommitted to the KDC program (although this number continues to decrease).

Employee Participation

As of June 30, 2008, there were 73,865 participants (includes active, terminated and retired participants) in the KDC program. The breakdown of participants by employer type is as follows:

State	27,906	(38%)
Education	22,506	(30%)
Other	<u>23,453</u>	(32%)
Total Participants	73,865	

The 'estimated' total number of employees who are eligible to participate is 206,600. The breakdown by employer type is as follows:

State	41,700	(20%)
Education	121,700	(59%)
Other	<u>43,200</u>	(21%)
Total Eligible	206,600	

The estimated participation or utilization rate by employer type is as follows:

State	39%
Education	12%
Other	40%

The overall KDC participation rate (utilization) among eligible employees (actively employed) is estimated to be in the 23% range. There are several factors which impact the KDC penetration rate. First, although the program includes a matching employer contribution provision, very few employers actually provide a match. The KDC marketing team has launched an aggressive school match campaign which has experienced good success with 11 school districts now currently offering a match program. Participation rates have proven to increase dramatically when an employer match is introduced. At a minimum we have seen rates climb to 80% and in some instances exceed 90%. And it is interesting to note the employer matching contribution does not have to be very large for these types of results to occur.

Another reason employees do not participate to a greater extent is they find themselves financially unable. Also, within the schools and universities a number of employees have opted for the 403(b) Tax Sheltered Annuity programs offered by insurance companies or have joined

separate 457 plans, both of which compete with the KDC program. However, the KDC program is beginning to experience greater success with school and university employees. In fact, the KDC program, in general, continues to improve its penetration rate with all participating employers and now enrolls an average of approximately 150 new participants each week. The relatively low penetration rate in the school systems is not an issue unique to KDC. The survey performed by KDC staff shows other state plans which allow school system participation also have low utilization within the schools. This includes states such as: Utah, Colorado, Wisconsin and Oregon. Utah is the exception with a 50% participation rate and may offer an employer match. Colorado, Wisconsin and Oregon have participation rates similar to KDC and are 20%, 25% and 28%, respectively. These states also indicated the primary reason for the lower penetration percentages relates to the availability of 403(b) plan and other 457 plan alternatives which compete with their state sponsored defined contribution plans.

It is difficult to obtain a valid comparison of KDC's enrollment performance with all states because only a few of these state plans open their deferred compensation program to other governmental employers. If the comparison is made strictly on state employee participation, KDC's penetration rate is comparable to Pennsylvania (35%) and Delaware (39%) whose plans are available to state employees only. These were the only states responding to the KDC survey whose program was available just to state employees.

Plans and Optional Features

KDC's program has been at the forefront of creative and innovative plan design for a number of years within the governmental defined contribution plans community. This statement is supported by the fact KDC has received more NAGDCA awards for outstanding achievement in the field of government defined contribution administration than any other state or local government program. Eleven times in the past 13 years KDC has received an outstanding achievement award from NAGDCA.

KDC is 1 of only 12 states which offer participants the choice of both an IRC Section 457(b) and 401(k) Plan. Participants may elect to participate in either or both plans, depending upon whether their employer has elected to offer both plans. Again, the overwhelming majority of participating Kentucky employers offer both plans. The ability to contribute to 2 plans is extremely advantageous to KDC's participants. This 2 plan structure affords participants the opportunity to contribute up to \$15,500 in each plan or \$31,000 annually on a tax-deferred basis. With the catch-up provisions, participants age 50 and over may contribute an additional \$5,000 to each plan each year. This increases the annual contribution limit for these participants to \$41,000. These amounts do not take into account the special 3-year catch-up under the 457 Plan which could conceivably add up to an additional \$15,500 in 457 Plan deferrals in each of the 3 catch-up years, raising the total contribution maximum to \$46,500 if less than age 50 or \$51,500 if age 50.

KDC is committed to becoming its participants, one-stop-shop for their voluntary supplemental retirement needs. Over the past several years KDC has pursued this goal which has thus far culminated in the implementation of the Roth 401(k) feature July 1, 2006 and the introduction of Deemed IRAs (both Traditional and Roth) effective July 1, 2007. It is the intent of KDC to consider the possibilities for developing a 403(b) Plan for education employees by 2010. To our

knowledge only 1 other state (Utah) and 1 city (New York City) currently offers Deemed IRAs to their participants. And only 1 state (North Carolina) besides Kentucky has implemented the Roth 401(k) feature. In addition to these special optional features, KDC offers the more traditional optional features such as hardship withdrawals, plan loans, age 50 catch-up, special 3-year catch-up and in-service rollovers to purchase service credits.

Based upon the information currently available from NAGDCA, Kentucky is the only state currently offering a 457 Plan, 401(k) Plan, Roth 401(k) feature and Deemed IRAs (both Traditional and Roth). This position, we believe, gives the KDC program a substantial benefits advantage over all other state programs as well as the many local and county programs. Even in the private sector Roth 401(k) and Deemed IRAs are not widely offered. This is because of the complexities of these options and resulting cost to administer.

In addition, KDC received legislative approval during the 2008 session to implement a professional investment advice program for participants. This new optional feature is now being developed and may be implemented as early as July 2009. Several other state plans have already implemented an investment advice program including Texas, Colorado, Michigan and Georgia.

Clearly, KDC's offers more plans and optional features to its participants than any other state or local government program. KDC is most proud of this fact.

Services and Benefits Provided by Authority Staff

KDC staff provides a multitude of services to the participating employers and their employees. KDC may be the only state program to provide the vast array of services it offers to participants on an in-house basis. This means participants can receive personalized, face-to-face assistance, as well as, telephone service throughout every state government business day. KDC's business hours were even extended a number of years ago to better serve our participants in different time zones. Several of the most significant services have been summarized by branch and are as follows:

-Investments and Records Branch

- 1) Oversees the investment of **all** participant deferrals which includes reconciling daily deposits in order to allow deferrals to be invested in a timely manner.
Average number of investments per month – 12 (144/yr)
Average amount invested per month - \$11.5 million (\$138 million/yr)
- 2) Assists participants in completing the rollover process, coordinates the transfer of monies from the current provider, and invests rollover funds when received.
Average number of rollover checks per month – 65 (780/yr)
Average amount of rollovers each month – \$1.4 million (\$16.8 million/yr)

- 3) Processes all participant loans, explaining loan procedures and Internal Revenue Service (IRS) regulations to participants, preparing forms, approving loans and presents loans to NRS for payment. Oversees investment of loan repayments received daily.

Average number of loans processed per month – 225 (2,700/yr)

Average loan volume each month – \$1 million (\$12 million/yr)

- 4) Oversees the imaging of all KDC documents and incoming mail into the imaging system.

Average number of documents imaged per month – 20,000 (240,000/yr)

-Payout Counseling Branch

- 1) Processes periodic and non-periodic payouts for plan participants

Average number of payouts per year – 6,900

- 2) Processes financial hardship/unforeseeable emergency withdrawals for plan participants

Average number hardship/unforeseeable emergency withdrawals processed per year – 370

- 3) Processes requests to purchase service credit in the various state retirement plans

Average number of transfers per year – 1,500

Amount transferred to all retirement systems to date – \$250 million

- 4) Advises participants of IRS regulations that apply to payouts (examples include required minimum distributions, tax withholdings, benefit events, etc.)

-Participant Services Branch

- 1) Offers a variety of customer services to all participants including:

- Assistance in making exchanges, allocation changes, increase, decrease and ceasing deferrals
- Reset password for the website (*average 2,400 calls/yr*)
- Accept and approve beneficiary forms and update participant file (*average 19,200/yr*)
- Explain differences between the 401(k) and 457 Plans
- Provide information regarding maximum deferral limits
- Answer statement questions
- Provide information regarding fund performance, fund categories, ticker symbols, etc.
- Update address, telephone numbers and last name on participant file
- Provide balance information and generate balance verification letters when requested

- 2) Enters into the record keeping system and audits weekly business which includes enrollments and requested deferral changes using the information provided on the Participation Agreements

Average 10,000 forms per month – 120,000/yr

- 3) Mails weekly billings to payroll clerks
Average 8,000 per month – 96,000/yr
- 4) Returns approved copy of Participation Agreement to the participant
Average 8,000 per month – 96,000/yr
- 5) Mails self-bills for loan repayments weekly
Average 6,000 per month – 72,000/yr
- 6) Mails new participant letters weekly
Average 7,800/yr

KDC's performance in the area of services and benefits provided excels in relation to the level of in-house services provided to participants by other state plans. With regard to the benefits available, no other program provides the level of benefits offered by KDC. KDC is unaware of another state program that provides similar in-house participant services. These services are typically performed long distance by a third party administrator.

Investment Options

The investment options available to participants in the KDC program include 27 mutual funds and the Fixed Contract Fund. The mutual funds are high quality, well known funds from mutual fund firms such as Fidelity, Vanguard, Federated, T. Rowe Price and American Funds.

The 27 mutual funds offer participants the opportunity to make investments which range from conservative to aggressive. The investment options are also broken up into 2 categories. The first category is managed life cycle funds which enable the participant to basically outsource the management of their account to a professional money manager. Life cycle funds are expected to represent 60% of investments in 457 and 401(k) plans within the next 10 years, Aon Consulting has predicted. The second investment strategy is known as a do-it-yourself portfolio where the participant elects to make the investment decisions for his/her own account. Mercer Consulting has advised studies have indicated the life cycle category typically outperforms the do-it-yourself category by approximately 200 basis points (2%) per year.

The Fixed Contract Fund is a stable value offering which has been custom designed for KDC. It does not trade on any type of investment exchange. The Fixed Contract Fund is a very conservative investment option with low volatility and a rather constant return. The Fixed Contract Fund invests in a portfolio of investment contracts issued by insurance companies, banks and other financial institutions. These institutions promise to pay a specific rate of return for a defined period of time on the funds invested. The vast majority of the investments are in AAA rated securities and, as such, are quite secure. The Fixed Contract Fund is the most popular participant option.

The results of the NAGDCA survey indicated the majority of state plans offer 11-20 investment options. KDC offers a total of 28 investment options, as indicated above. A significant number of state plans offer 50 or more investment options. Studies indicate participants begin to become

confused over their investment choices when there are more than 10 options. This is an example of when more is not necessarily better! This is one reason why KDC offers participants marketing services to educate them on making their investment choices and reduce the potential for confusion since we offer a more comprehensive *Spectrum of Investment Options*.

Since the KDC program only offers high quality mutual fund investments the long-term (10-years) average rate of return is quite good. For the 10-year period ended December 31, 2007, the average rates of return are for each investment type is as follows:

Fixed Contract Fund	4.86%
Mutual Funds	6.74%
Average Weighted Total Return	6.14%

It should be pointed out that on an individual participant basis returns could be higher or lower, depending upon the actual funds selected and the percentage allocated to each. These returns compare favorably with the average rate of return generated by KRS and KTRS.

KDC's rates of return are also very favorable when measured over a shorter period of time. The table below prepared by Aon Investment Consulting reflects return data against some broad-based benchmarks for the 3-years ended June 30, 2008:

	Aggregate Return thru Jun '08				Jul '05 thru Jun '08	
	3-Month	6-Month	1 Year	2 Year	Cumulative	Annualized
KEDCA	0.84%	-4.23%	-1.80%	11.99%	22.58%	7.02%
Fidelity Freedom 2010	0.18%	-4.89%	-3.44%	10.08%	17.41%	5.50%
Vanguard Balanced Index	-1.33%	-6.08%	-4.86%	8.88%	14.76%	4.70%
Median Balanced Fund	-1.00%	-6.73%	-5.58%	8.14%	15.47%	4.91%

Aon indicated KDC's returns are above the median and rank in the top one-third of comparable plans.

Participant Education/Communications

Participant education and communications have long been critical program components for KDC. In recent years, in addition to providing the basic *Spectrum of Investment Options*, *Plan Summary* and *Plan Highlights*, KDC's education and communications staff have produced a number of communications that addressed new programs, fund changes and breaking news developments.

In order to reach as broad a spectrum of participants as possible these communications were produced for and distributed over multiple media venues: print, CD/DVD and the web. Among the participant education and communications highlights are:

Lunch and Learn Seminars
Enrollment DVD
School Match Video
Numerous eworkshops (available on the Authority's website: www.kentuckydcp.com)
Fee Disclosures document
Multi-Plan comparison chart
Multiple participant education newsletters
Annual Deferred Compensation Participant Education Expos

The NAGDCA survey indicates KDC is most competitive with the other state programs reporting on education/communications. KDC utilizes all of the most frequently used communication/education methods outlined in the NAGDCA survey including:

Enrollment Booklet	Group Retirement Planning Meetings
Newsletter	Group Enrollment Seminars
Voice Response System	Internet/Website
Benefits Fair	

Additionally, as listed above, KDC uses communications/education methods which other state plans have yet to attempt.

Website/Internet Services

KDC has its own dedicated website which is maintained by the program record keeper Nationwide Retirement Solutions, Inc. The website address is www.kentuckydcp.com. The website, in general, compares favorably with the other states which participated in the NAGDCA survey. The KDC website provides all the services most frequently used by the other state plans participating in the NAGDCA survey and include: plan specific information, transaction capabilities, secure access to account information and investment/education information.

KDC staff expects to improve the existing website functionality over the next few months to make it more valuable and user friendly for participants.

Conclusion

***Economic Impact to Commonwealth**

***Areas of Strength**

***Areas needing Improvement**

Economic Impact to the Commonwealth

The KDC program had a positive impact on the Commonwealth's economy again in calendar year 2007. Over 14,000 participants received distribution from their KDC accounts. These participants collectively received over \$106 million from KDC. While this number is not as large as the distributions from KRS and KTRS, the number is **not** insignificant. Many of these dollars flowed back into local economies across the Commonwealth and helped to support them.

Overall the KCD program compares quite favorably to the other state programs that participated in the NAGDCA and KDC surveys.

Areas of strength:

- 1) KDC's program excels in the area of plan design. Our one-stop-shop concept has set the standard for all other state plans to emulate.
- 2) KDC's level of personal service to participants is unsurpassed by any other state program. Providing outstanding customer service to KDC participants is the paramount goal of the KDC staff and its third party administrators.
- 3) KDC's education/communications initiatives are among the very best in the government defined contribution universe. For example, we point to the national award winning participant Investment Education Expos first developed by KDC.
- 4) The features of the KDC program gives Kentucky a competitive advantage over **all** other state plans. No other state program offers a 457 Plan, 401(k) Plan, Roth 401(k) option and Deemed IRAs (both Traditional and Roth). In fact, very few private sector plans offer all these features. Soon KDC participants will also have the ability to utilize a professional investment advice program. It is important to point out KDC is able to offer participants this high quality and well diversified program in a most cost effective manner, **without the expenditure of a single General Fund dollar**.
- 5) KDC is now looked upon as one of the nation's premier governmental defined contribution programs. Even state programs substantially larger than KDC's have begun to pattern their deferred compensation programs after the KDC program.

Areas needing improvement:

- 1) The KDC website, although adequate, needs some improvements to make it more user friendly. KDC staff is working with its record keeper, Nationwide Retirement Solutions, Inc., to implement improvements.
- 2) While participant fees have been lowered numerous times and are competitive, there is still room for improvement. KDC staff is working with its mutual funds consultant, Aon Investment Consulting (Aon), to seek ways to continue the lowering of participant costs.

- 3) The current KDC fund options are well diversified; however, KDC is considering the inclusion of additional asset classes such as an FDIC insured component and an emerging markets fund.
- 4) Since the KDC program cannot currently ensure a participant will not out live the assets in his/her account, KDC staff is working with Aon to evaluate an income replacement tool to alleviate this possibility. KDC staff is hopeful a recommendation regarding this feature can be made to the Board within the next 12 to 18 months.